Globalization and the WTO Agreement on Financial Services in African Countries

African Economic Policy
Discussion Paper Number 51
December 2000

Michael J. Isimbabi
International Business Initiatives

Funded by
United States Agency for International Development
Bureau for Africa
Office of Sustainable Development
Washington, DC 20523-4600

Equity and Growth through Economic Research

EAGER supports economic and social science policy analysis in Sub-Saharan Africa. Its primary goal is to increase the availability and the use of policy analysis by both public and private sector decision-makers. In addition to the goal of achieving policy reform, EAGER seeks to improve the capacity of African researchers and research organizations to contribute to policy debates in their countries. In support of this goal, EAGER sponsors collaboration among American and African researchers and research organizations.

EAGER is implemented through two cooperative agreements and a communications logistics contract financed by the United States Agency for International Development (USAID), Strategic Analysis Division, The Office of Sustainable Development, Bureau for Africa. A consortium led by the Harvard Institute for International Development (HIID) holds the cooperative agreement for Public Strategies for Growth and Equity. Associates for International Resources and Development (AIRD) leads the group that holds the cooperative agreement for Trade Regimes and Growth. The Communications Logistics Contract (CLC) is held by a consortium led by BHM International, Inc. (BHM). Other capacity-building support provides for policy analysis by African institutions including the African Economic Research Consortium, Réseau sur Les Politiques Industrielles (Network on Industrial Policy), Programme Troisième Cycle Interuniversitaire en Economie, and the International Center for Economic Growth. Clients for EAGER research activities include African governments and private organizations, USAID country missions and USAID/Washington, and other donors.

For information contact:

Yoon Lee, Project Officer
USAID
AFR/SD/SA (4.06-115)
Washington, D.C. 20523
Tel: 202-712-4281 Fax: 202-216-3373
E-mail: ylee@usaid.gov

Lisa M. Matt, Senior Advisor
BHM International
P.O. Box 3415
Alexandria, VA 22302
Tel: 703-299-0650 Fax: 703-299-0651
E-mail: lmatt@eagerproject.com
Contract AOT-0546-Q-00-5271-00

J. Dirck Stryker, Chief of Party
Associates for International
Resources and Development (AIRD)
185 Alewife Brook Parkway
Cambridge, MA 02138
Tel: 617-864-7770 Fax: 617-864-5386
E-mail: dstryker@aird.com
Contract AOT-0546-A-00-5073-00

Sarah Van Norden, Project Administrator
Belfer Center for Science & International Affairs
John F. Kennedy School of Government
79 John F. Kennedy Street
Cambridge, MA 02138 USA
Phone: 617-496-0112 Fax: 617-496-2911
E-mail: sarah_van_norden@harvard.edu
Contract AOT-0546-A-00-5133-00

Abstract

This paper examines how globalization trends -- the internationalization of trade in services, finance and investment; rapid advances in communications and information technology; interdependence as well as competition among developing and developed nations; etc. -- are creating a new and complex global economic order. To ensure rapid economic and social progress, African countries must find ways to compete successfully in this emerging global economy and benefit from trends in globalization. Given the limited capacity of African countries, dealing with the challenges of globalization requires bold steps with a strong sense of urgency, in order to (a) spur private domestic and foreign investment and (b) build well-functioning financial services sectors that are well-integrated with international financial markets. In particular, policies must be designed to foster equitable economic growth and improvement in the economic conditions of the poor, who constitute the majority of the African population. This requires effective financial services delivery to the private sector in areas that can have a direct impact on poverty alleviation -- infrastructure development, the establishment and growth of small- and medium-sized businesses, export trade, microenterprise development, agricultural and rural enterprise development, housing, etc.

Author:

Michael J. Isimbabi [73053.3105@compuserve.com] holds a Ph.D. in Business/Finance from Temple University, Philadelphia, USA, as well as MBA and Bachelor of Engineering (Electrical) degrees from Ahmadu Bello University, Nigeria. His professional background includes extensive experience as a consultant, economist, professor, banker, and engineer.

Dr. Isimbabi's consulting, research/analysis, writing, teaching, and management experience spans several areas: Financial Markets, Investments, Banking/Financial Services, Corporate Finance, International Business & Finance, Emerging Markets, E-commerce, High Technology Business/Finance, and Electricity/Energy Markets.

His publications include Contemporary Portfolio Theory and Risk Management [Co-authored] (West Publishing, 1994) and articles in journals such as the Journal of Banking and Finance, Recent Developments in International Banking and Finance, the Atlantic Economic Journal, the SAIS Review: A Journal of International Affairs, and others.

**This paper extends and updates a 1997 review by the author (Isimbabi, 1997c). Some parts of that review are revised and updated in this paper; where relevant, the reader is referred to the earlier review for more details and additional references on subjects that are only discussed briefly here.*

TABLE OF CONTENTS

I. INTRODUCTION

The development of stable, efficient, and well-functioning financial services sectors is critical to the evolution of vibrant private sectors that can spur equitable economic growth in developing countries.[1] However, the financial infrastructures in most African countries are weak and underdeveloped, thus hampering their ability to mobilize savings, stimulate domestic and foreign investment, and allocate capital efficiently to bring about sustained economic growth.

Financial sector development remains an important challenge facing African countries as they reform their economies. Emerging trends in the globalization of trade, finance, and investment present opportunities for African countries to develop their financial systems, integrate them with international financial markets, and attract foreign investment. Thus, policies must include innovative trade, investment, and financial liberalization that will enable them to take advantage of these opportunities.

Liberalization and integration of a country's financial system with global financial markets implies eliminating barriers to inflows and outflows of capital, as well as eliminating restrictions on foreign financial services providers. However, while liberalization can provide substantial benefits, there are certainly potential risks. If reforms are not designed or implemented properly, financial crises and macroeconomic destabilization may occur. Financial liberalization remains a difficult and perilous endeavor even for more advanced countries. Given the fragile nature of African financial and economic systems, it is therefore critical that African countries carefully implement policies that will produce strong financial infrastructures appropriate for their respective economies.

Since its creation out of the Uruguay Round in 1994, the World Trade Organization (WTO) has worked toward the liberalization of international trade and investment in services (financial services; telecommunications; information technology; transport; tourism; engineering; consulting; etc.). Similar liberalization efforts have been embarked upon under other multilateral initiatives such as the OECD's Multilateral Agreement on Investment (MAI). The WTO's focus on investment and services grew out of a recognition of its growing importance to global economic growth. Trends in globalization point to huge future growth of the services sector and indicate that the WTO Agreements and similar initiatives will largely define world trade and investment in services.

The WTO Agreement on financial services, which was concluded in December 1997 and ratified in March 1999, seeks to eliminate barriers (domestic laws, regulations, and other restrictive measures) that deny market access to foreign financial services providers. According to the WTO, the objective is to establish "a rules-based multilateral playing field for financial services and investment - rather than a cat's cradle of discriminatory bilateral or regional deals - [that will foster the emergence of a] strong global financial system to support a strong global economy" (Ruggiero, 1997a).

Clearly, these developments have important implications for African countries as they seek to become more integrated with the global economy. As globalization trends evolve, African countries need to pursue, with a greater sense of urgency, policies and strategies that will ensure that they benefit from the WTO and other multilateral initiatives. In recognition of this imperative, a meeting of African trade policy experts was held in 1997 on the theme, "Building the Capacity of African Governments to Examine the World Trade Organization." The objective of the meeting was to

[1] See Levine (1997) for an extensive review of the literature.

make recommendations on how members of the Organization of African Unity (OAU) and the African Economic Community (AEC) “could effectively contribute to the shaping and designing of the rules and regulations governing international trade relations under the WTO and to engage effectively in trade negotiations.”[2]

In addition, the WTO, the World Bank, the International Trade Center, the IMF, and the United Nations have collectively initiated a "Joint Integrated Technical Assistance Programme" aimed at helping African and other developing countries to participate more effectively in the multilateral trading system.

Financial globalization can help foster the development of strong financial systems and the efficient delivery of financial services. The availability of direly needed financial services will help boost productivity and competitiveness in international trade and foster equitable economic growth and poverty alleviation. In recognition of this, the May 1999 meeting of African finance ministers organized by the UN Economic Commission for Africa (ECA) focused on the theme, "Financing Development in Africa."

The purpose of this paper is to provide a review of the relevant policy, research, and technical assistance issues that need to be addressed in this regard. A particular emphasis is given to the implications of the GATS/WTO Agreement in financial services and related trends in global trade, finance, and investment for African countries. Also provided is a recommended framework for a medium- to long-term technical assistance program involving education and information dissemination on the linkages between globalization and poverty alleviation in African countries. A new generation of competent and dedicated leadership, combined with a well-informed populace, and national consensus behind policies can create competitive investment environments in African countries.

Because the issues involved are relatively new, this paper is one of the first to examine them in relation to African countries in a comprehensive manner from a technical assistance perspective. Thus, it is a timely and important primer with regard to policy-making in African countries, the EAGER research and technical assistance agenda, and USAID's objectives on fostering financial and private sector development in Sub-Saharan Africa (SSA).

The paper is organized as follows. Section II reviews recent trends in globalization and the WTO, with emphasis on the WTO Agreement in Financial Services. Section III examines the financial and investment environment in African countries. Section IV highlights the policy issues and challenges for African countries and outlines the recommended framework for providing technical assistance to African countries.

[2] "Mechanism Urged to Aid African States in WTO Negotiations,” Xinhua News Agency, 14 April 1997.

II. GLOBALIZATION, THE WTO, AND DEVELOPING COUNTRIES

II.1 The WTO and the Less Developed Countries (LDCs)

According to Sorsa (1997), during the initial negotiations of the Uruguay Round, many developing countries felt that they did not have comparative advantage in services, or that liberalization of the services sector would be of little relevance for their development strategies.[3] But, as the Round progressed, the potential of the services sector--in enhancing and diversifying their export sectors and improving the competitiveness of many export industries--became evident.

However, a major concern of developing countries, in particular the “Least Developed Countries” (a category that includes most sub-Saharan African countries), is that the costs of trade liberalization could outweigh the benefits for them. While free trade would be beneficial to developed countries, poor countries would be further marginalized. There remains the suspicion in some quarters that the WTO is an elite club of developed nations that will benefit from multilateral liberalization at the expense of developing countries. Developing countries complain that their views and interests are often not taken into account and that they are often excluded from key meetings.[4] And, at the Seattle summit in December 1999, developing countries reportedly were angered by what they saw as an effort to force upon them unacceptable labor standards (Baghwati, 1999).

As often noted, globalization will produce losers as well as winners in developing and developed countries alike, and there is the danger that it could contribute to further wealth inequality and social instability in developing countries.[5] Critics argue that multilateral investment initiatives such as the OECD’s Multilateral Agreement on Investment (MAI) (discussed below) will, among other things, divest domestic control from governments over measures designed to ensure that countries benefit from foreign investment. National treatment provisions, for example, would prohibit domestic laws that impose conditions on foreign investment or favor domestic firms or protect certain industries. Thus, there is the suspicion that, given much access and power, transnational corporations may not conduct business in ways that optimally enhance a country’s economic progress.

In particular, African countries' further marginalization in world trade remains of much concern. Some have argued that such marginalization was partly due to their failure to make meaningful liberalization commitments under the Uruguay Round, thus foregoing the opportunity to benefit from the Round. However, it is clear that protectionist policies in the industrialized countries have been and remain a major hindrance to the growth of African countries’ export trade in areas such as agricultural products and textiles (*Economist*, 1999f). In an acknowledgement of this issue following the Seattle summit, the EU and the US have pledged to work with Japan and Canada on a package of special trade concessions for the least developed countries early in 2000 (*Financial Times*, 1999a).

---

[3] See Isimbabi (1997c) for an overview of globalization of trade in services, the General Agreement on Trade in Services (GATS), and related references.

[4] Michalopoulos, 1999; de Jonquie`res and Williams, 1999; Cooper and Bahree, 1997; "Developing Countries are Falling Behind," *WTO Focus*, June 1998, 18-19.

[5] See, for example: *The Nation*, 1999; Friedman, 1999; Soros, 1998; Rodrik, 1999; Greider, 2000; Bahree, 1997a.

Over the last few years, some developing countries have significantly increased their participation in WTO activities. However, most, especially the smaller and lower-income ones, still lack capacity and are not well-represented (de Jonquières and Williams, 1999; Michalopoulos, 1999). Also, developing countries' interests may diverge on some issues and they are therefore not able to form strong coalitions. However, as demonstrated during the Seattle summit, there are indications that developing countries are increasingly seeking ways to forge stronger alliances and muster greater clout in WTO negotiations (Baghwati, 1999; *Economist*, 1999f). According to the *Financial Times* (1999c), the summit appears to have resulted in further making LDCs "more resolute in standing together," and they now have "a much clearer agenda of what they want to gain from WTO talks."

The WTO acknowledges that one of its major challenges is to ensure that multilateral liberalization and globalization have a beneficial impact on the least-developed countries. In recognition of LDCs' need for technical assistance, the WTO adopted a Plan of Action for the Least-Developed Countries at its first WTO Ministerial meeting in Singapore in December 1996. The Plan was intended "to ensure that all least developed countries have a strong voice in the WTO.... (since) membership in the WTO does not automatically mean that all countries have the resources to participate equally in the system" (Ruggiero, 1997a). Subsequently, a "High-Level Meeting on Least-Developed Countries," organized by the WTO, UNCTAD, the International Trade Center (ITC), UNDP, the World Bank, and the IMF, was held in Geneva in October 1997 to address "the pressing question of how to combat marginalization (of the LDCs in the world economy)" (Lavorel, 1997). The themes addressed at the meeting include building the "capacity to trade" and encouraging investment in least-developed countries.

The initiatives that emerged from the meeting -- termed the Integrated Framework for Trade-Related Technical Assistance, described by the WTO as "a new partnership against marginalization" -- are intended to facilitate LDCs' full integration in the world economy. These include (a) a program designed to help LDCs increase their ability to trade and (b) "new and improved" preferential market access measures for LDCs.[6]

Under a Joint Integrated Technical Assistance Programme in Selected Least-Developed and Other Countries, the WTO is also providing African countries with technical assistance. In March 1998, the WTO, UNCTAD, and the ITC launched a Common Trust Fund to support the implementation of the program. The Fund, expected to reach a total of about US$10 million, will cover program requirements for seven sub-Saharan African countries (Benin, Burkina Faso, Tanzania, Uganda, Cote d'Ivoire, Ghana, and Kenya),[7] including financing of national needs assessments, project development and advisory missions, specific country projects, and other activities. The objectives of the program are to:

1. Strengthen national capacities to address the trade implications of the WTO Agreements;
2. Strengthen trade and export policy and negotiating capabilities;
3. Improve institutional mechanisms to carry out the WTO Agreements;
4. Develop supply-side response to opportunities provided by the multilateral trade system; and

[6] See *WTO Focus* (WTO newsletter), November 1997 (www.wto.org).

[7] These seven SSA countries and Tunisia constitute the eight African countries that the Integrated Programme has initially focussed on.

5. Improve African countries' access to export business services and performance tools.[8]

While globalization does reduce the extent to which governments can exert control over their economies, governments still have considerable flexibility to develop and implement prudent policies. For African and other developing countries, the ongoing challenge will be the reconciliation of globalization and its implications in various areas such as labor and human rights, economic and social justice, the environment, etc. Recent events (discussed below) have put greater pressure on the WTO to become more sensitive to, and address, the concerns of poor nations and civil society groups on these issues. Such increased sensitivity was evident at the World Economic Forum meeting (of government officials, multilateral agency officials, corporate chief executives, civic leaders, and leading economists) in Davos, Switzerland, in February 2000 shortly after the WTO's Seattle summit. The *New York Times* reports that the idea that economics cannot be isolated from social, human, and cultural issues "struck a responsive chord with executives at Davos. In fact, this year's conference may be remembered as the time businesses and advocacy groups stopped fighting each other and started talking. Business leaders proposed a flurry of ways they could become more socially conscious" (Kahn, 2000).[9]

As the *Financial Times* has reported, recent events and trends have led to increasing hostility toward globalization, capitalism, free trade, and big business even in developed countries (*Financial Times*, 1999b; de Jonquie`res, 1999; Jackson, 1999; Wolf, 1999). Following the public relations problems experienced in the last few years by global firms such as Royal Dutch Shell (human rights and environmental issues in Nigeria) and Nike (child labor in developing countries), corporate executives are becoming increasingly sensitive to the social and human aspects of development. Of course, much of the corporations' pronouncements may lack substance and may be little more than public relations efforts intended to show that they are addressing developing countries' concerns. However, the increased surveillance and monitoring also enabled by globalization and communications and information technology increasingly put pressure on global firms to be good corporate citizens whose activities are consistent with the economic and social development objectives of their host countries. Jackson (1999) notes that "one result of technological innovation is that companies have been able to extend their global reach drastically in recent years. As a matter of course, democracies have been slower to respond. Building global institutions, as the WTO found in Seattle, is tougher than building a global business. Hence the widespread feeling that companies are assuming vast and unaccountable powers, while governments are losing their grip. Companies complain privately that they cannot get away with anything these days. The same technology that extends their reach means they are living in goldfish bowls. Any misdemeanour is instantly spotted and broadcast worldwide over the internet." Thus, though their leverage will remain limited, African governments that truly desire to do so will increasingly be able to ensure that investors' activities are consistent with their countries' economic and social goals as well as cultural sensitivities.

---

[8] For details on specific activities, see "WTO, UNCTAD, and ITC Launch a Common Trust Fund for Technical Assistance to Africa in the Trade Sector," WTO Web Site document, No. 173, 26 February 1998.

[9] Leaders of labor, environmental, human rights, and other civil society groups were invited to the meeting, and several sessions focused on the social, cultural, and human aspects of globalization trends. See the Forum's Web site: www.weforum.org.

NGOs in the rich countries, which are becoming increasingly more influential, can help to advance the interests of African and other developing countries in the multilateral arena. However, in areas such as labor and the environment, their interests may be at odds with those of developing countries. As Greider (2000) suggests, these groups need to "establish their bona fide intentions (with developing countries). The objective is not to stymie industrial development in low-wage economies or to rewrite laws for other societies."

Mike Moore, the new Director-General of the WTO, has signaled a strong interest in issues of concern to developing countries.[10] He is making effort to establish a "development round" aimed at helping poor countries by removing barriers to exports such as agriculture and textiles (Moore, 2000; de Jonquie'res, 1999). However, what influence and impact he will have in this regard remain to be seen.

In the next few years of WTO negotiations, cooperation among developing countries will likely increase, and they may be able to exercise more clout than in the past. However, African countries in particular will continue to have limited capacity and leverage, and will remain at greater disadvantage. As discussed later in Section V, this underscores the urgent need for greater and rapid regional cooperation and integration among African countries.

Clearly, a workable balance must be forged in the coming years between the justified profit-driven motives underlying foreign investment and the equally justified economic and social concerns of developing countries. Pressure on developing countries to allow market access must be based on persuasion and an appreciation of the difficulties that even those who are genuinely committed to reform face in their respective economies – debt burdens, fragile political and economic systems, pervasive poverty, etc.

II.2 The WTO Seattle Summit and the Future of Multilateral and Regional Initiatives

The Seattle summit was marked by the well-publicized protests staged by labor, human rights, and consumer groups, development NGOs, environmentalists, protectionists, etc. The discussions and negotiations among delegates reportedly were characterized by bickering, posturing, blame-hurling, and dissension (Cooper et al, 1999). There was much disagreement among the industrialized countries -- the U.S., EU, and Japan -- on the one hand, and between developing countries and rich countries on the other. Negotiators could not agree on several issues such as new global rules on investment, removal of tariffs on agricultural and textiles products, anti-dumping laws, labor rights, etc. Developing countries expressed distrust and suspicion of the rich countries and the WTO, pointing to the latter's unwillingness to take up issues that would be beneficial to developing countries at the expense of industrialized countries. LDCs also complained that their views were ignored, and that they were kept in the dark and out of discussions (Wysocki, 1999; Baghwati, 1999). In the end, the Seattle meeting did not accomplish much. In particular, WTO members did not reach any agreements on the liberalization of services and investment beyond the commitments that had been made during the previous rounds of negotiations.

[10] It is also expected that Mr. Supachai Panitchpakdi, who will succeed Mr. Moore in 2002, as a native Thailand, will strongly represent the interests of developing countries.

In light of the failure of the summit, the WTO decided to "postpone until early 2000 a decision on how to proceed with issues outstanding from the Seattle Ministerial Conference."[11] The US and EU have reaffirmed their commitment to launching a new round of trade talks "as soon as possible;" however, the various disagreements that remain among the U.S., the EU, Japan, and developing countries are likely to make further negotiations slow, complex, and difficult (*Financial Times,* 1999a). Some observers believe that very little will be accomplished in 2000 because of the upcoming U.S. presidential elections, and that the direction of trade negotiations will thereafter depend on the priorities and policies of the next American president. However, the Seattle debacle will not derail WTO negotiations entirely--as some observers have pointed out, similar setbacks characterized the Uruguay Round.

The failure of the Seattle summit demonstrated the concerns engendered, in the rich countries as well as in developing countries, by recent trends in globalization and multilateral liberalization, especially the impact of the global financial crises of 1997-98 (Section III).[12] The *Financial Times* (1999b), for example, notes that the Seattle protests "have real importance as a warning signal that public unease with capitalism and the forces of globalization is reaching a worrying level. The Asian crisis showed the world how even the most successful countries could be brought to their knees by a sudden outflow of capital. People were outraged at how the whims of secretive hedge funds could apparently cause mass poverty on the other side of the world. ...This increased concern about the social consequences of economic activities is mirrored in the return to power of centre-left governments in the leading European nations. The rhetoric of economic efficiency that dominated the 1980s has given way to Third Way politics, which is an attempt to combine economic growth with social justice."

Though the groups that staged protests in Seattle have different interests, they are united in their opposition to various globalization trends symbolized by, or attributed to, the WTO. Through well-organized global networks -- facilitated by the Internet and advanced communications and information technologies -- they are garnering much clout and are able to marshal fierce opposition to multilateral initiatives. Prior to their protests in Seattle, the groups had been successful in bringing about the collapse, after more than three years of negotiations, of the OECD’s Multilateral Agreement on Investment (MAI) in December 1998. Until its collapse, the MAI “competed” with the WTO Agreement with regard to multilateral liberalization in investment and services.[13] The MAI was expected to “provide a comprehensive framework for investment with high standards of liberalization and investment protection, and with effective dispute settlement.”[14] As a free standing treaty that would be open to accession by non-OECD members, the MAI was intended to be a comprehensive agreement covering all forms of investment, including the establishment of enterprises and the activities of established foreign-owned enterprises. MAI disciplines would apply

[11] "General Council Defers Post-Seattle Discussion Until Early 2000," WTO Press Release, 17 December 1999 (www.wto.org).

[12] de Jonquie`res, 1999; *The Nation,* 1999; Jackson, 1999; Wolf, 1999; *Financial Times,* 1999b.

[13] Witherell (1997) provides a discussion of the MAI in relation to foreign investment and the WTO. (Witherell was the Director of the OECD’s Financial, Fiscal and Enterprise Affairs Division).

[14] "Multilateral Agreement on Investment: Report by the MAI Negotiating Group,” May 1997, MAI Home Page, OECD Internet Web site.

to all sectors and at all levels of government, and would extend beyond traditional foreign direct investment to include portfolio investment and intangible assets. The failure of the MAI talks prompted a shift from the resolution of potential conflicts between the WTO and the MAI to the pursuance of a framework similar to that of the MAI during the next round of WTO negotiations beginning in 2000. However, in light of the disagreements that emerged at the Seattle summit, it is unlikely that there will be much progress on negotiations on investment and services in the next few years.

The disagreements in Seattle and the failure of the MAI are clear indications of the difficulties inherent in multilateral liberalization efforts requiring consensus among various countries and groups on numerous issues that cut across political, economic, and social considerations. Critics cite provisions such as those that would place significant restrictions on a government's ability to impose performance and other requirements on foreign investors. Critics also charged that while the MAI agreement would have substantially expanded the rights of foreign investors and protected them from government action, it did little to require responsibility with regard to consumer, human, and labor rights, environmental standards, etc. In general, in both developed and developing countries, there remains concern that certain aspects of globalization trends embodied in the MAI and the WTO threaten individual countries' sovereignty and culture.[15] Governments still want to maintain protectionist policies and retain unilateral discretion over regulations covering foreign investment, such as the selective use of incentives to attract certain types of investment in desired sectors or geographical areas.

Thus, in whatever forum it is pursued, multilateral liberalization of investment will remain difficult and slow to achieve (Witherell, 1997; Vocke, 1997). As Vocke (1997) notes, the existing multilateral legal framework on investment remains "patchy in coverage, biased in favor of certain flows, and ambiguous in its impact on investment." And, even among OECD countries, foreign investors still encounter barriers, discriminatory treatment, and legal and regulatory uncertainties (Witherell, 1997).

The doubts that emerged over the ability of the WTO to reach agreement on multilateral liberalization efforts (at least in the near term) may prompt greater focus on bilateral and regional liberalization initiatives. The number of bilateral and regional agreements increased considerably in the 1990s as both developing and developed countries undertook trade and investment liberalization (World Bank, 1997c).[16] While bilateral and regional agreements that liberalize trade between countries are beneficial and desirable for many reasons, they in effect discriminate against non-members. Thus, the desired goal of multilateral liberalization in the WTO is the convergence of regionalism and multilateralism such that full trade and investment liberalization is achieved and covered by one set of rules in a free global market (Witherell, 1997; Ruggiero, 1996c).

---

[15] See, for example, Public Citizen's Global Trade Watch Web site (www.tradewatch.org) and *The Nation*, 1999.

[16] The numerous regional initiatives include: the European Union (EU), the North American Free Trade Agreement (NAFTA), ASEAN (Asia), CARICOM (the Caribbean), and MERCOSUR (Latin America). In Africa, regional groups include the Southern African Development Community (SADC), the Economic Community of West African States (ECOWAS), COMESA, the East African Economic Community (EAC), and the African Economic Community (AEC). SADC, for example, is working to create a free-trade southern Africa region that will focus on attracting foreign investment and reducing dependence on foreign aid. In most regions, there are plans to expand the groupings to include more countries and to cover more issues.

Of course, nothing stops countries from undertaking unilateral liberalization on their own. However, trade/investment liberalization remains politically difficult for governments, hence the need for multilateral organizations such as the WTO: (i) it is politically easier for governments to undertake liberalization by using the argument -- against the entrenched special interests and protectionists – that, through multilateral agreements, the country obtains reciprocal concessions from other countries; and (ii) countries are more likely to adhere to agreements reached in a multilateral framework.

In the aftermath of the failure of the Seattle talks and the growing backlash over globalization, several issues need to be addressed if the WTO is to achieve its goals:[17]

- The WTO has to do a better job of public education and information dissemination, in both developed and developing countries, on the benefits of globalization. In particular, it needs to make the case that despite the dislocations that might occur, globalization, fostered by the WTO, can bring about prosperity in poor countries. Wysocki (1999), for example, notes that the WTO lacks credibility as an agent of broad global prosperity and has a major marketing problem because "while the benefits of trade agreements are widely dispersed, the costs are very concentrated, and the losers are very local." Also, Kinsley (1999) observes that it's hard to sell free trade because "any given example (such as cheaper products) tends to benefit a lot of people in small ways that are hard to identify, and tends to harm a few people a lot in ways that are vividly evident (such as closure of a factory and resultant unemployment)."

- The WTO and rich countries need to address, more credibly and effectively, concerns that:

  a. multilateral liberalization is being undertaken at the expense of poor nations, which remain marginalized at the WTO and continue to be denied greater access to rich countries' markets;

  b. the WTO caters only to the interests of powerful multinational corporations without regard to the interests of poor nations, the environment, labor and human rights, etc.;

  c. the WTO fosters wealth inequalities, is unaccountable, secretive, and undemocratic.

- The WTO and governments need be more sensitive to the concerns of those that are not benefiting from globalization and come up with more proactive ways of addressing the painful dislocations that result, especially the disproportionate impact on the poor.

---

[17] See, for example: Stiglitz, 1999c; Rodrick, 1999; Wysocki, 1999; de Jonquie'res (1999); *The Economist* (1998a, 1999a,b,c,d,e,f).

II.3 The WTO Agreement on Financial Services and Liberalization of Financial Services Sectors

The developments over the last five years since the conclusion of the Uruguay Round have borne out Sauve's (1995) observation that the journey to free trade in services, as with the GATT, may be expected to be "long, winding and occasionally bumpy...." In February 1997, after almost three years of negotiations, the first sectorally-based agreement, on Basic Telecommunications, was concluded. The agreement reportedly encompasses more than 95% of the global telecommunications market. Another agreement providing for the removal of barriers on trade in information technology products was also concluded in March 1997. Following a difficult negotiation process over a three-year period, the Agreement on Financial Services was concluded in December 1997 and ratified in March 1999. In accordance with the "built-in agenda" of the Uruguay Round, the WTO summit in Seattle in November/December 1999 was supposed to have launched a new "Millenium Round" of negotiations in 2000. However, as discussed in the next section, the Seattle summit was not successful in this regard.

According to the WTO, the Agreement on Financial Services is expected to provide benefits to both developing and developed economies alike:

> Developing countries have a growing interest in liberalizing their financial sector and deregulating their investment regimes in order to build the kind of competitive financial infrastructure they need for future growth. At the same time, developed economies have a clear interest in an agreement which will open the fastest growing markets to one of their fastest growing industries. And all sides in this negotiation have an interest in building a strong global financial system to support a strong global economy (Ruggiero, 1997a).

The WTO expects that the most evident practical change in many countries will be the appearance of more foreign banks, securities firms, and insurance companies in markets; the availability of banking, securities and insurance services sold across the border by overseas companies; and the provision of asset management and other financial services by wholly, or partially, foreign-owned companies. And, for countries that are actual or potential exporters of financial services, opportunities for their banks, securities firms, and insurance companies will be considerably enhanced. [18]

In support of the case for liberalization of financial services sectors,[19] Warren Lavorel, Deputy Director-General of the WTO, observed that "there are a number of recent cases where liberalization in developing countries--and the participation of foreign banks--helped accelerate the required restructuring of financial institutions. There are also cases where allowing domestic banks to diversify abroad would improve their competitiveness at home. Through liberalization, financial institutions almost invariably become more resilient and more efficient. And even those countries experiencing financial problems will need to look abroad for the capital and expertise necessary to revitalize their financial systems" (Lavorel, 1997).

[18] "The WTO Agreement on Financial Services," WTO Press/18, 26 July 1995, WTO Internet Web site.

[19] See Isimbabi (1997c) for an overview of the arguments for liberalization.

As financial services providers in developed countries face saturated markets, intense competition, and slow growth in their domestic markets, they have increasingly looked to the high growth potential of emerging markets to expand, diversify, and establish global networks.[20] Foreign financial services providers and governments in developed economies are pushing to get emerging economies to implement liberal policies that will allow entry by foreigners.

At the end of the Uruguay Round in 1993, 82 governments (counting the then 12 nations of the European Union individually) included financial services in their schedule of individual market-opening commitments. The negotiations on financial services, which were not finalized at the conclusion of the Round, continued for more than four years until they were concluded on 12 December 1997. In all, 102 WTO members made multilateral commitments in the sector. Further negotiations on financial services are expected to be part of the WTO's new round of multilateral negotiations scheduled to begin in 2000 ("Agenda 2000").

The negotiations on financial services were difficult: As Wang (1996) notes, this was due to the "pervasive and complex relations between financing, payments and economic activities. The sensitivity of national financial and monetary policies and policies designed for the allocation of credit rendered the commitment-making much more prudential and tentative, particularly with respect to market access either through cross-border supply or commercial presence."

In July 1995, the U.S. declined to participate in a final Agreement on the grounds that the offers made by some countries (primarily Japan and the Asian emerging economies) were inadequate. An interim Agreement, which did not include the U.S., was agreed upon and in effect until December 1997, when the final Agreement was concluded.

Because of the Asian crisis, the conclusion of the Agreement was, for a brief period, in doubt, as the big Asian economies became even warier of opening up their markets (Bahree, 1997b; Cooper and Sesit, 1997). However, the argument that, in the long-run, open and competitive financial markets may help avert financial crises, and opening markets would not lead to any loss of control over financial systems, evidently prevailed (Bahree, 1997b). Melloan (1997b), for example, argued that more openness to foreign competition as the WTO Agreement required would have fostered better banking and financial system stability in the Asian countries, but acknowledged the difficulty: "It is not easy to sell developing country politicians on the idea of spreading risks by allowing foreigners access to the financial sector. After all, that's where the money is and influence over money flows goes hand in hand with political power. If lenders are making decisions purely on the basis of credit risk analysis--as they should be--there is very little room for politicians to direct it to politically-favored credit seekers." In addition, opening up their markets was an essential part of the bail-out agreements that some of the Asian countries reached with the IMF.

Following the conclusion of the negotiations, the WTO's then Director-General noted that, in spite of the financial crises in 1997, 102 member governments (including the Asian countries in crisis) made binding commitments in the December 1997 agreement, and none threatened to withdraw from the negotiations or withdraw offers already tabled because of the crisis. He attributed this to

[20] See, for example: *The Banker*, 1999; *Financial Times*, 2000; Souccar, 1999; Clifford and Bremner, 1999; *The Economist*, 1997.

the countries' "belief that stronger competition and greater openness will make their national infrastructures stronger, not weaker" (Ruggiero, 1998). However, while the Asian countries recognized the need for such liberalization, some of the policies they adopted in the aftermath of the crisis were due to pressure from the IMF and the Western governments that were providing the financing to stem the crisis. Thailand, for example, agreed to allow foreign investors to hold majority stakes in banks as part of the IMF bail-out package (Sherer, 1997a,b).

Dobson and Jacquet (1998) opine that, paradoxically, while the crisis may have threatened to derail the agreement, it appeared to have facilitated the conclusion of the agreement on schedule: (a) the Asian countries perhaps hoped that their WTO offers would signal their determination to undertake reforms that would help to restore credibility, stability, and confidence; and (b) the crisis helped to make IMF demands for financial reforms acceptable, and also highlighted the benefits of binding in a multilateral agreement some of the liberalizing measures that either had already been taken or that appeared necessary.

The commitments made by various countries in the Agreement on Financial Services vary widely in terms of sectoral coverage, modes of supply, MFN exemptions, and conditions and restrictions attached to commitments. This is largely because of the different motivations and objectives underlying individual countries' commitments. In general, the commitments relate to (i) establishment of foreign financial institutions and guaranteed levels of foreign equity participation in subsidiaries or affiliates of banks, insurance firms, and other financial firms; and (ii) participation of foreign firms in asset management and other financial services, among other things.

Because of the unique nature of financial services, the GATS recognizes the need for prudential regulation and supervision measures to protect investors and maintain the integrity and stability of members' financial systems. It also allows the use of non-discriminatory restrictions on balance-of-payments and transfers in the event of serious balance-of-payments and external difficulties. Furthermore, the management of monetary and exchange rate policy falls outside the scope of the GATS.[21]

The July 1995 Agreement

Key (1997), Kono and Low (1997), Kono et al (1997), Sorsa (1997), and Wang (1996) provide summaries and analyses of the July 1995 agreement on financial services. Sorsa (1997) provides the most extensive analysis of the agreement with particular reference to developing countries, and the discussion that follows is drawn largely from her analysis. She concludes that the Agreement mostly consolidated industrial countries' relatively open policies in the multilateral framework, and, since these countries represent the bulk of the world's financial services business, the agreement virtually consolidated much of world trade in financial service. However, while most industrial countries made liberal commitments, some added reservations to their schedules on market access and national treatment. Coupled with their MFN exemptions, this effectively reduced the economic value of their commitments. In particular, the U.S.'s broad MFN exemption made all new access subject to reciprocity in order to encourage market openings by emerging markets, a condition that

[21] "Liberalizing Financial Services Helps Economies Without Compromising Their Right to Regulate," WTO Press/76, WTO Internet Web site Document, 15 September 1997.

posed the most serious limitation. Sorsa also opines that "the somewhat cautious liberalization by industrial countries in the GATS compared to their more liberal commitments in other fora such as the EU, NAFTA, or the OECD, probably reflects a reluctance to open up markets to financial institutions from countries with diverse prudential or supervisory systems. This may be due to a desire to limit potential systemic risks from the introduction of unsound foreign financial institutions into one's market."

Sorsa examined the commitments of developing countries by dividing them into two groups:

1. *The Emerging Markets* group, comprising 26 developing and transition countries (South Africa, Morocco, and Egypt are the only African countries in this group). This group includes some rapidly developing countries, but most still have relatively closed or undiversified financial sectors. Thus, they could benefit from increased foreign entry to facilitate the diversification and modernization of their financial markets. According to Sorsa, many of the countries in this group recognized the importance of liberalization and efficient financial sectors to their economies. Therefore, for them, the role of the GATS can be "one of a catalyst and consolidator" as they seek to develop their financial systems. Most of the commitments by countries in this group (90% of the countries in banking and 70% in securities) were in commercial presence, but the commitments were subject to conditions. Many of the countries invoked MFN and current account restrictions and, in general, most commitments reflected existing policies, though some Asian countries undertook some new liberalization.

2. The *Other Developing Countries* group comprises 26 mostly lower-income developing countries, but also some higher-income Latin American and Middle Eastern countries. There are 13 African countries in this group: Angola, Benin, Gambia, Gabon, Ghana, Kenya, Lesotho, Malawi, Mozambique, Nigeria, Sierra Leone, Tunisia, and Zimbabwe. These countries, which have relatively small financial sectors, offered quite diverse commitments, ranging from very liberal (compared to the Emerging Markets group) without major MFN exemptions (a few countries), to the token commitments in one or two sub-sectors (most countries). Forty percent of the countries made commitments in cross-border trade, mostly unconditional free trade in both banking and securities. Gambia, Ghana, Mozambique, Sierra Leone, and Zimbabwe were the only African countries that offered unrestricted cross-border trade (cross-border supply and consumption abroad) in all banking services and in most securities. Commitments in the group on commercial presence covered about two-thirds of entries in banking and one-fourth in securities, most of which were subjected to restrictions. Ghana, Kenya, and Mozambique were the only African countries that offered free establishment for foreign banks in many banking services. Most other offers were conditional, subject to limitation on foreign participation, legal form, or number of establishments, and in some cases, the seemingly liberal offers may be limited by existing restrictions.

According to Sorsa, industrial countries, as the main providers of financial services, pressed developing countries to open up their markets mostly for commercial presence. The pressure to open up was harder on the higher-income and larger developing countries; most made commitments, but subjected them to many restrictions under commercial presence. Sorsa concluded that:

1. While the July 1995 agreement was a good start for multilateral liberalization in the sector, actual liberalization was “small and disappointing,” as the bindings were likely to have only locked in policies or practices that were already in place in some financial sub-sectors or countries.

2. The agreement failed to meet many tests for a good multilateral agreement in services, because the many exemptions allowed and conditions attached implied some discrimination and reduced security of market access. Some of the provisions were weak or still subject to varying interpretations; market access commitments were conditional and temporary; only specific financial services sub-sectors listed were bound; many countries made MFN exemptions that maintained reciprocity and discrimination in market access; and the Agreement allowed far too much discretion in making liberalization commitments.

3. The actual level of liberalization of financial sectors in most countries differed from that undertaken in the GATS framework.

4. Liberalization under the GATS appeared to have little correlation with the level of financial sector development or actual openness, especially among the developing country members of the GATS.[22]

5. Many countries with relatively developed financial sectors made only relatively narrow openings in the GATS framework, whereas some with less developed financial sectors made very liberal GATS openings (especially in cross-border trade). This suggests that mercantilistic bargaining, rather than the economic aspects of financial sector reform, explained the bulk of the GATS liberalization commitments.

6. The Agreement’s main immediate importance was therefore systemic and political, though it provided a basis and potential for future multilateral liberalization in the financial sector in a nondiscriminatory manner within internationally enforceable rules.

The December 1997 Agreement

The December 1997 Agreement was ratified in January 1999 and went into force on 1 March 1999, with 102 of the 135 WTO members making market-opening commitments. According to the WTO, the total commitments brought over 95% of world trade in banking, securities, insurance, and financial information under the jurisdiction of the WTO, on the basis of broad MFN and under a dispute settlement mechanism.

While the December 1997 Agreement improved upon the July 1995 agreement in terms of commitments by members, market opening was still not much more beyond the status quo.

[22] Sorsa notes that an economic assessment of liberalization commitments is difficult due to (1) statistical problems that hinder measurement of financial services and in turn the effect of liberalization; and (2) the complex provisions of the GATS framework, for example, complex schedules with many reservations attached, and lack of consistency across countries in the information provided (such as classification of financial sectors, prudential rules, and distinctions between market access and national treatment).

In an analysis of the Agreement, Dobson and Jacquet (1998) conclude that the agreement usefully locked in prior reforms in a number of countries but achieved little new liberalization in the sector:

"While it was a milestone for the WTO because a significant number of WTO members agreed to a legal framework for cross-border trade and market access in financial services and to a mechanism for dispute settlement,... the agreement is less than meets the eye...it simply formalizes the status quo...there is a significant agenda of market opening measures still to be taken in the future."

The key observations by Dobson and Jacquet are as follows:

1. The OECD countries did little to further open their markets.

2. The bigger ("significant") emerging economies' commitments on market access in banking barely go beyond binding the status quo.

3. The developing countries offered much more significant access to their insurance sectors. This was apparently because emerging-market countries have underdeveloped insurance and securities markets as well as embryonic asset management capacities, and they were therefore more willing to grant market access in these areas than in banking, which dominates the financial sectors. Also, insurance companies may have been active demanders in these negotiations because banks in OECD countries, including the U.S., were preoccupied by industry consolidation at home and by changes in domestic regulations. Indeed, the U.S. insurance industry hailed the Agreement as "historic" and "sweeping" in its provision of immense opportunities for foreign investment, by virtue of its coverage of more than 98% of the world's insurance business in over 60 countries.[23]

4. In the face of strong reluctance by many emerging-market economies, even binding the status quo was an achievement. The little movement beyond the status quo by developing countries may be due to their caution, in light of the Asian crisis, with regard to the speed of integration of their economies with the rest of the world and the role they wish foreign institutions to play in that process. They fear foreign domination and want to control the speed and the nature of the adjustments necessary to achieve greater efficiency in the sector. (Developing countries, which do not have the global financial firms that can compete in the developed markets, have little interest in increased access to the latter's financial markets.)

5. The Agreement does not appear to provide significant new momentum on market opening. In the last few months of the negotiations, the movement toward increased financial opening came from the conditions imposed by the IMF as part of its bail-out of countries such as Thailand and South Korea.

6. The agreement does not address the need to reform financial systems to promote growth—re the useful role of foreign financial firms in this regard (increased competition, technology transfer, know-how, and resources). Yet, nondiscriminatory opening to foreign entry, which should be an ingredient of developing countries' financial reform strategies, is not a major feature of the

[23] "World Trade Pact is Only First Step," Editorial, *National Underwriter Life and Health-Financial Services Edition*, January 5, 1998.

agreement. Instead the agreement is a response to pressure from events and from countries and firms.

Mattoo (1998) provides an analysis of the 1997 Agreement with specific reference to developing and transition economies.

Insurance

1. Over half of the developing and transition countries – accounting for 95% of the GDP of non-developed members -- made commitments on direct insurance services.

2. Participation (in terms of numbers of countries) was lowest in Africa, where only 13 of the 41 African members made commitments—but the participating countries accounted for 80% of African members' GDP. Country participation was highest in Eastern Europe where all WTO members made commitments (For Latin America: 18 of 32, constituting 97% of the region's GDP; and for Asia: 17 of 25, constituting 95% of region's GDP).

3. Full liberalization across all three modes were rare – commercial presence is clearly the mode through which members guaranteed access to domestic markets for direct insurance services.

4. Of those that made commitments in direct insurance, African countries ranked second (to Eastern Europe) in degree of openness. Seven out of the thirteen African countries, including Nigeria and South Africa, accounted for two-thirds of participants' GDP, and imposed no restrictions on the legal form of commercial presence. The others attached restrictions such as economic needs tests or discretionary procedures in allowing new entry (Egypt, Gabon, and Mauritius), reciprocity condition (Morocco), and equity limitations.

Banking

1. Commitments in core banking services were greater than in insurance—nearly two-thirds in the group (97% of GDP of non-developed members) made commitments on the acceptance of deposits and lending of all types. Again, country participation was highest in Eastern Europe (all members made commitments) and lowest in Africa (only 18 of 41). African participation in banking -- 18 countries accounting for 84% of the region's GDP -- was greater than in insurance. Asian and Latin American participation was marginally higher than in insurance.

2. Full liberalization across all modes was less rare than in insurance. The ten countries which have guaranteed virtually unconstrained access by all modes of supply, however, account for only 1% of participants' GDP and include only the smaller economies: 5 in Africa (Ghana, Kenya, Malawi, Mozambique, and Sierra Leone), 2 in the Pacific (Papua New Guinea and the Solomon Islands) and 3 in the Latin American group (Guyana, Haiti, and Panama).

3. As in insurance, commercial presence was the relatively most liberalized mode. 10 out of the 18 African countries – 78% of region's GDP – guaranteed virtually unconstrained rights of commercial presence:

    - No restrictions -- Any mode: Ghana, Kenya, Malawi, Mozambique, and Sierra Leone

- Virtually no restrictions on commercial presence: Egypt, Lesotho, Nigeria, and South Africa
- Economic needs test or discretionary procedures in allowing new entry: Benin, Gabon, Mauritius and Tunisia
- Zimbabwe: 60% limit on foreign equity
- Morocco: reciprocity condition to commercial presence as well as discretionary limits on foreign equity participation
- Gambia: commercial presence unbound in core banking services.

Mattoo notes that overall judgement and comparisons on market access commitments are not possible because of the differences in the extent of binding in different modes and differences in restrictions. However, Mattoo's analysis suggests that, in general, the small number of African countries that participated made some of the most liberal commitments among the developing and transition economies.

The limited scope of this study precludes an extensive discussion and evaluation of African countries' commitments--as will be discussed in Section V. An obvious area of further work is country-by-country analyses of the commitments of African countries, and recommendations on the additional commitments they should make.

In the next round of negotiations starting in 2000, financial services should be part of the discussions on FDI and competition policy. However, in light of the failure of the MAI and the Seattle summit, consensus on additional substantial commitments in investment and services among a diverse WTO membership will be difficult. Thus, the next rounds of negotiations are likely to be difficult and protracted.

III. THE AFRICAN FINANCIAL AND INVESTMENT ENVIRONMENT AND PRIVATE INVESTMENT

III.1 African Financial Systems and the Underdevelopment of Financial Markets

As in many developing and transition economies, financial and private sector reforms instituted in African countries included: deregulation of interest rates; exchange rate liberalization and deregulation of foreign exchange markets; privatization; liberalization of investment regimes and opening up of markets to foreign investors; restructuring of banking systems; development of prudential regulatory and legal frameworks; diversification of financial services; development of capital markets, including the establishment of stock exchanges; and integration with international financial markets. While there have been some moderate successes, progress has been limited and the results have been largely mixed.[24]

In general, the limited progress to date is largely with respect to reduction in financial repression; the restructuring and privatization of financial institutions, which have led to improvements in the

[24] See Isimbabi (1997c) for a review, including summaries of case studies and references on financial systems and reforms in African countries. See also Nissanke and Aryeetey (1998) and Deschamps and Bonnardeaux (1995, 1997).

management and performance of many banking systems; reduction in the public sector share of bank credit; increased competition in and diversification of a few financial sectors, following privatizations and opening up of the sector to foreign competition (*African Business*, 1999; *Financial Times*, 1999c). Some countries, such as Nigeria and Kenya, while recording improvements, are essentially still going through the difficult process of cleaning up the sector following their disastrous experiences with reform stemming largely from poor regulation and supervision, cronyism, and corruption.

While a few countries have made progress, several components of financial markets that are critical to private sector and economic development remain generally underdeveloped in most African countries. These include: financial services firms other than commercial banks--e.g., finance and leasing companies, contractual savings institutions (insurance companies, pension funds), investment funds, investment banks, venture capital funds, development finance institutions, etc.; securities markets; financial information services; information and communications technology infrastructure; prudential regulation, monitoring and supervision systems; and legal and judicial frameworks.

In particular, the limited development of capital markets beyond banking systems -- e.g., venture capital funds and securities markets -- severely hampers the mobilization of funds for financing the medium-term and long-term investments that are critical to economic growth. In an attempt to develop securities markets, attract foreign investment, and facilitate the privatization process, many countries have, in the last decade, established new stock exchanges or improved existing ones. These stock markets, however, are thin and remain relatively inactive because of the small size and underdevelopment of private sectors; limited supply of securities; inadequate supporting regulatory, legal, and institutional structures; the poor investment environment; and the inability to attract much private domestic and foreign investment. In fact, the establishment of stock exchanges in some countries, especially the smaller ones, may have been ill-advised.[25]

Also, a major challenge in financial sector development in African countries is the development of financial intermediaries that can deliver market-based (rather than subsidized, inefficient, and charity-based) financial services to businesses in the informal and small-scale economic sectors, and to the poor. Though microenterprise finance programs have been successful in some developing countries, the general performance of such programs in African countries has been poor.[26]

III.2 The African Investment Environment and Private Investment

The problems that make the investment environment in African countries uncompetitive are well-documented: poor leadership; civil strife; political, economic, and policy instability and uncertainty; governments' lack of credibility and genuine commitment to reforms; lack of transparency; poor economic performance; the small size of markets; poor physical, financial, and human infrastructures; harsh regulatory and institutional environments characterized by corruption, red-tape, and inefficient bureaucracies; hostility toward private investment and foreigners; weak

[25] See: *The Economist*, 1997c, 1996a; Isimbabi, 1997a; Postel, 1997; Moss and Kenny, 1996; and Jefferis, 1995; for discussions on African stock markets.

[26] For a brief overview and references, see Isimbabi (1997).

regulatory and legal systems, and the absence of rule of law that assures property rights and contract enforcement, among other things.[27]

For a while in the late 1990s, the political and economic environment in Africa appeared to be improving, as some African countries made attempts to improve their investment climates. Thus, there was much optimism about Africa's prospects with regard to trade, private investment, and economic growth (Sachs and Sievers, 1998). In the World Bank and IFC's 1998 annual reports, for example, qualified or “guarded” optimism was the pervasive theme (World Bank, 1998a; IFC, 1998). This optimism was particularly heightened when and after President Clinton visited several African countries in March 1998. However, the World Bank's 1999 report on global development finance noted that after "several years of stronger growth, Sub-Saharan Africa witnessed a setback" in 1998 (World Bank, 1999a). The report cited civil strife, poor weather (due to the effects of El Nino), decrease in exports due in part to the Asian crisis, and the decline in world commodity prices, as the major factors that contributed to the region's poor performance. And in its 1999 Annual Report, the Bank reports that despite some progress, “huge challenges remain, ranging from the natural obstacles of geography to human-made situations of conflict… Effective poverty reduction will require sustained and higher per capita GDP growth, with strong commitment from the region’s leaders to expand opportunities and services for the poor. Even among reformers, an unfinished agenda of institutional and governance reform remains, to attract investment—fundamental to growth...” (World Bank, 1999b).

Perhaps nothing has done more damage to prospects of private investment as the civil strife that has erupted in several countries within the last two years. The "leaders" that have thrust their countries into unnecessary wars include some who had been touted as the architects or leaders of a new African Renaissance. Of course, these developments have further reinforced the negative perceptions about the African political, economic, and investment environment, thus wiping out much, if not all of the gains, made in the 1990s. Nevertheless, the recent institution of a democratically elected government in Nigeria, which has so far gained some domestic and international credibility has renewed a sense of optimism: Combining their strengths, Nigeria and South Africa have the potential to lead future growth in the continent, but both are still trying to solve their own daunting internal political, economic, and social problems.

Prior to 1997 and the emerging-market financial crisis, the investment response to the improved economic performance in a few African countries was encouraging, though still limited and below expectations relative to other emerging economies. However, there were indications that if the investment environment is conducive and *competitive*, African countries can attract significant private foreign investment and stem capital flight. As reform efforts (especially privatizations) achieved some success in a few African countries, and South Africa emerged from political turmoil with the potential to power economic growth in the continent, the potential of African economies drew the attention of international investors. In the early 1990s when interest in emerging markets intensified, African markets attracted significant attention from international investors, as evidenced by the establishment of several African regional investment funds. During the 1993-96 period,

---

[27] See, for example: World Economic Forum, 1998; Sachs and Sievers, 1998; Corporate Council on Africa, 1997; World Bank, 1999a,b, 1998, 1997a,b, 1995a,b; Bennell, 1997; Isimbabi, 1997a,b; Rauth, 1997; Bhattacharya et al, 1997a,b; Madavo and Sarbib, 1997.

African equity markets ranked among the best-performing markets in the world, and garnered significant international attention.[28]

Nevertheless, compared to other developing regions, relatively little foreign private capital (FDI, portfolio investment, bank loans, or bond financing) flowed to Africa even before the 1997-98 global financial crisis (Bhattacharya et al, 1997a,b; World Bank, 1997c). This was largely because the investment environment was still perceived as risky, unfriendly, and uncompetitive, despite the progress that a few countries were making. Bhattacharya et al (1997b) reported that their survey of commercial banks, investment banks, and mutual fund managers showed that “investors perceive the risks of investing in SSA countries to be higher than in other regions and face greater impediments to identifying and exploiting profitable opportunities in SSA than elsewhere.” Furthermore, many multinational firms, including banks, divested their holdings in African countries during the 1990s.[29]

The poor investment environments effectively stifle private investment in financial services and, in particular, inhibits the entrepreneurial risk-taking that is necessary for the development of innovative financial products and services that can meet the needs of the under-served segments of the private sector. Successful privatization in some countries has led to increased private sector ownership and better performance of banks (Siddiqi, 1997b; Postel, 1996). The banks, however, primarily engage in relatively low-risk business by serving only large, established firms and the affluent, and by providing only safe traditional banking services with little innovation. According to a World Bank survey of multinational banks operating in Africa (Deschamps, 1995), the banking environment was generally perceived as difficult. The problems cited by the banks include: (i) pervasive intervention in the sector by governments, whether as shareholders, borrowers, or depositors; (ii) lack of commitment of authorities to serious reform; (iii) the high cost of doing business, particularly with regard to corruption and political intervention; (iv) small markets; (v) limited human and financial capacity; and (vi) policy reversals. For these reasons, some banks had discontinued their operations or were considering doing so.

More recently, according to the *Financial Times*, many bankers have complained that the lack of recourse to the judicial system prevents them from financing riskier ventures that they might otherwise be willing to finance in a transparent and legally safe environment (Turner, 1999). Thus, banks continue to restrict themselves to the safest activities, largely concentrating on large, stable companies, and entrepreneurs and small and medium-sized businesses lack access to credit. Furthermore, the poor investment environment also hampers the emergence of more entrepreneurial financial services firms such as venture capitalists and investment funds that can provide the "patient" risk capital needed for such businesses, infrastructure projects, and other long-term or riskier projects.

In the aftermath of the 1997-98 emerging markets financial crises, the decline in the performance of African countries, and the resurgence of civil conflict in African countries, the prospects for increased foreign and domestic investment in African countries remain bleak (World Bank, 1999a; Morgan Guaranty Trust Company, 1999; *Barclays Economic Review*, 1999.) The poor perception of

[28] See Isimbabi (1997a,b,c) for overviews of these developments and references.

[29] See: Deschamps, 1995; Deschamps and Bonnardeaux, 1997; Bennell, 1995, 1997.

the African environment is evident in *Institutional Investor*'s recent semi-annual ratings of country risk (Shapiro, 1999; Rowley, 1999).[30] The ratings showed that most African countries continue to rank very low relative to other regions in the perception of international investors.

Obviously, the levels of foreign investment that the continent can attract fall substantially short of the massive amounts needed to finance development. In particular, African countries are not able to attract the long-term financing needed for building basic infrastructure (power, telecommunications, information technology, transportation, etc.), a critical prerequisite to attracting the other types of private investment that can bring about rapid economic development. Much of the FDI flows to Africa goes to the mining and energy (especially oil) sectors in a few countries--these lucrative sectors are the only ones that provide the almost certain high returns that can compensate for the high perceived risk associated with these countries. In 1996, when investor interest in emerging markets was strong, though private capital flows to Africa increased, 89% of portfolio equity flows went to South Africa, and most of the $2.6 billion in FDI was invested in the oil-exporting countries (Angola, Cameroon, Gabon, and Nigeria) (World Bank, 1999a, 1997c; Morgan Guaranty Trust Company, 1997).

To foster long-term private sector development, substantial amounts of long-term foreign capital to finance infrastructure development are required, as is venture capital for financing the new and growing small businesses that should be the engines of economic growth. Such capital is high-risk, which further underscores the critical need to create favorable climates for investment and entrepreneurial risk-taking in African countries. As African countries continue to suffer from negative perceptions (not always unjustified), they will remain less competitive in attracting capital relative to other regions that are perceived more positively (the former Soviet Union, Central/Eastern Europe, Asia, Latin America, and the Middle East). Therefore, even those African economies that are making some progress may not be able to attract significant foreign private capital.

With respect to the financial services sector, policies should be designed to eliminate deficiencies and foster the development of money and capital markets, namely: (a) improvement in the efficiency and performance of existing institutions in providing basic services, and (b) increasing the variety of financial services available to important sectors of the economy. This requires stronger focus on: (a) increasing competition in the sector; (b) facilitating financial innovation and the evolution of financial intermediaries and instruments that can meet the savings, investment, financing, and risk management needs of businesses, governments, and individuals; and (c) integration with global financial markets.

[30] The ratings are based on surveys of leading international banks, investment managers, and economists.

IV. IMPLICATIONS FOR POLICY, RESEARCH, AND TECHNICAL ASSISTANCE

IV.1 The Challenge: Globalization, Investment, and Developing Financial Services Sectors

The foregoing sections have discussed how globalization trends -- the internationalization of trade in services, finance and investment; rapid advances in communications and information technology; interdependence as well as competition among developing and developed nations; etc. -- are creating a new and complex global economic order. To ensure rapid economic and social progress, African countries must find ways to compete successfully in this emerging global economy and benefit from trends in globalization. Given the limited capacity of African countries, dealing with the challenges of globalization requires bold steps with a strong sense of urgency, in order to (a) spur private domestic and foreign investment and (b) build well-functioning financial services sectors that are well-integrated with international financial markets. In particular, policies must be designed to foster equitable economic growth and improvement in the economic conditions of the poor, who constitute the majority of the African population. This requires effective financial services delivery to the private sector in areas that can have a direct impact on poverty alleviation--infrastructure development, the establishment and growth of small- and medium-sized businesses, export trade, microenterprise development, agricultural and rural enterprise development, housing, etc.

Given the need to attract "patient" risk capital from both foreign and domestic investors, and the perception and reality of the African continent as a risky environment, the creation of a conducive and competitive financial and investment environment is paramount. Specifically, policy-making and implementation, within the context of the globalization trends discussed in Section II, should focus on the following:

- Elimination of the impediments to private foreign and domestic investment and the proper functioning of domestic financial systems (outlined in Section III).

- Approaches to opening up financial markets to foreign financial services providers and liberalization of cross-border capital flows. The critical questions include the following: How much opening is optimal? How quickly should this be done? How should foreign capital flows be managed?

- Determination of (a) how the WTO Agreement and other multilateral and regional initiatives can best foster financial sector development and foreign investment, and (b) what a country needs to do within the context of these initiatives--namely, in terms of unilateral liberalization, the crucial need for resource-pooling through African regional economic/financial integration, and participation in multilateral trade/investment initiatives.

As discussed in Section III, liberalization efforts in most African countries have been half-hearted, poorly executed, or non-existent, and largely unsuccessful. Of course, liberalization is difficult and risky to implement, as evident from the experiences of many developing countries in recent years--it takes years of prudent and consistent policies and genuine commitment. Because of the continent's political, ethnic, and leadership problems, such commitment has been lacking in African countries.

As discussed in Section II, African countries' participation and liberalization in the WTO has been minimal, apparently as a result of a cautious attitude toward liberalization and limited capacity and leverage. However, in the next round of WTO negotiations beginning in 2000, African countries must seek ways to address these problems and be full participants, if they are to benefit from globalization trends and be significant participants in the emerging global economy.

The obvious continent-wide strategy that would be very effective is regional financial and economic integration. As often noted, strong regional initiatives, by virtue of economic interdependence and peer pressure, would spur continent-wide cooperative efforts to solve political and economic problems, implement difficult but necessary liberalization, and thereby make the region more competitive for domestic and foreign investment. With regard to financial services, the practical impact of regional integration would be the emergence of strong and stable regional networks of financial services firms, regional securities markets, and regional regulatory and supervisory structures, which would in turn foster stronger integration with the international financial system.

In the global arena, regional financial integration will help to overcome some of the disadvantages that make it difficult for African countries to take advantage of opportunities presented by the WTO and other multilateral initiatives--small size, lack of institutional capacity, expertise, and leverage, etc., by: (a) creating larger integrated markets, (b) harnessing resources, (c) improving negotiating capacity and leverage in the multilateral arena and with foreign investors, and (d) facilitating greater integration with global financial markets. A strong African regional block would also be able to reach effective agreements with other regional blocks, especially in the event the Millenium Round of the WTO falters or becomes protracted (Section II). The regional agreements can be designed to be consistent and compatible with the WTO Agreement and other multilateral initiatives.

Also, credible and strong regional cooperative efforts would signal to foreign and domestic investors alike that there is truly a change in the continent and that African governments genuinely believe in and are committed to fostering private sector-led development. In addition, this would justify and greatly bolster the case for debt forgiveness and aid.

REFERENCES

Deschamps, J. and J. Bonnardeaux. 1997. “Bank Restructuring in Sub-Saharan Africa: Lessons from Selected Case Studies.” Private Sector Finance, Africa Region, The World Bank, May.

Deschamps, J. 1995. “The Strategies and Role of Multinational Banks in Africa.” Office Memorandum, Africa Technical Department, The World Bank. November.

Dobson, Wendy and Pierre Jacquet. 1998. *Financial Services Liberalization in the WTO*. Washington, DC: Institute for International Economics.

Financial Times. 1999c. Survey: African Banking. 21 May.

Isimbabi, M.J. 1997a. “Stock Markets, Foreign Investment, and Economic Growth in Africa.” *SAIS Review: A Journal of International Affairs*, Summer-Fall: 141-152.

Isimbabi, M.J. 1997b. “Private Foreign Investment and African Development: Illusions and Realities.” *21st Century Policy Review*, Winter.

Isimbabi, M.J. 1997c. *The WTO Agreement and Financial Services in African Countries: A Review of Policy and Research Issues*. EAGER Desk Study. November.

Kenny, C.J. and T.J. Moss. 1998. “Stock Markets in Africa: Emerging Lions or White Elephants?” *World Development*, 829-843.

Key, S.J. 1997. “Financial Services in the Uruaguay Round and the WTO.” Occasional Paper No. 54, Group of Thirty, Washington, DC.

Kono, M. and P. Low. 1996. “Financial Services in the GATS: A Continuing Negotiation.” Geneva: World Trade Organization.

Kono, M., P. Low, M. Luanga, A. Mattoo, M. Oshikawa, and L. Scuknecht. 1997. *Opening Markets in Financial Services and the Role of the GATS*. Geneva: World Trade Organization.

Moss, T.J. and C. J. Kenny. 1996. “Africa’s Emerging Stock Markets.” *CSIS Africa Notes*. November.

Ng'ong'ola, C. 1999. "Regional Integration and Trade Liberalization in Africa," *The Journal of World Trade*, 33(1), 145-171.

Nissanke, M. and E. Aryeetey. 1998. *Financial Integration and Development: Liberalization and Reform in Sub-Saharan Africa.* London and New York: Routledge.

Popiel, Paul A. 1994. “Financial Systems in Sub-Saharan Africa: A Comparative Study.” World Bank Discussion Paper No. 260.

Sauve, Pierre. 1995. “Assessing the General Agreement on Trade in Services: Half-Full or Half-Empty?” *Journal of World Trade*, August: 125-145.

Siddiqi, M. 1997a. "South Africa Dwarfs Rest of Africa." *African Business*, October: 11-13.

Sorsa, P. 1997. “The GATS Agreement on Financial Services--A Modest Start to Multilateral Liberalization.” IMF Working Paper WP/97/55, May.

Steel, W., E. Aryeetey, H. Hettige, and M. Nissanke. 1997. “Informal Financial Markets Under Liberalization in Four African Countries.” *World Development*: 817-830.

UNCTAD. 1999. *Foreign Direct Investment in Africa 1999.* Geneva: United Nations Conference on Trade and Development.

Vocke, M. 1997. “Investment Implications of Selected WTO Agreements and the Proposed Multilateral Agreement on Investment.” Working Paper WP/97/60, International Monetary Fund, Washington, DC..

Wang, Yi. 1996. “Most-Favored-Nation Treatment under the General Agreement on Trade in Services--And Its Application in Financial Services.” *Journal of World Trade*, February: 91-124.

Witherell, W. 1997. “Developing International Rules for Foreign Investment: OECD’s Multilateral Agreement on Investment.” *Business Economics*, January: 38-43.

World Bank. Various reports.

World Economic Forum. 1998; *The Africa Competitiveness Report.*

World Trade Organization. 1997. “Financial Services.” WTO Internet Web site document (Non-attributable background note). June 17.

To Order EAGER Publications

EAGER Publications/BHM
P.O. Box 3415
Alexandria, Virginia 22302
Tel: (703) 299-0650 Fax: (703) 299-0651
e-mail: spriddy@eagerproject.com

EAGER Publications can be downloaded from www.eagerproject.com or through USAID's website at www.dec.org

Policy Briefs based on EAGER research funded by the U.S. Agency for International Development:

1. Can Mali Increase Red Meat Exports? Metzel, Jeffrey, Abou Doumbia, Lamissa Diakite, and N'Thio Alpha Diarra. *Prospects for Developing Malian Livestock Exports*. Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

2. The Livestock Sector in Mali - Potential for the Future. Metzel, Jeffrey, Abou Doumbia, Lamissa Diakite, and N'Thio Alpha Diarra. *Prospects for Developing Malian Livestock Exports.* Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

3. Mali's Manufacturing Sector: Policy Reform for Success. Cockburn, John, Eckhard Siggel, Massaoly Coulibaly, and Sylvain Vézina. *Manufacturing Competitiveness and the Structure of Incentives in Mali.* Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

4. Growth and Equity: Gemstone and Gold Mining in Tanzania. Phillips, Lucie Colvin, Rogers Sezinga, Haji Semboja, and Godius Kahyarara. *Gemstone and Gold Marketing for Small-Scale Mining in Tanzania.* Arlington, VA: International Business Initiatives, 1997. Available in French.

5. Financial Services and Poverty in Senegal. Ndour, Hamet, and Aziz Wané. *Financial Intermediation for the Poor*. Cambridge, MA: Harvard Institute for International Development, 1997. Available in French.

6. Need to Promote Exports of Malian Rice. Barry, Abdoul W., Salif B. Diarra, and Daouda Diarra. *Promotion of the Regional Export of Malian Rice.* Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

7. Trade Policy Reform: A Success? Metzel, Jeffrey, and Lucie C. Phillips. *Bringing Down Barriers to Trade: The Experience of Trade Policy Reform.* Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

8. Excise Taxes: A Greater Role in Sub-Saharan Africa? Bolnick, Bruce, and Jonathan Haughton. *Tax Policy in Sub-Saharan Africa: Reexamining the Role of Excise Taxation.* Cambridge, MA: Harvard Institute for International Development, 1997. Available in French.

9. Status of Financial Intermediation for the Poor in Africa. Nelson, Eric. *Financial Intermediation for the Poor: Survey of the State of the Art.* Bethesda, MD: Development Alternatives Incorporated, 1997. Available in French.

10. Foreign Direct Investment and Institutions. Wilhelms, Saskia K.S. *Foreign Direct Investment and Its Determinants in Emerging Economies*. Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

11. Strong Institutions Support Market-Oriented Policies. Goldsmith, Arthur. *Institutions and Economic Growth in Africa.* Cambridge, MA: Harvard Institute for International Development, 1997. Available in French.

12. Reducing Tax Evasion. Wadhawan, Satish, and Clive Gray. *Enhancing Transparency in Tax Administration: A Survey*. Cambridge, MA: Harvard Institute for International Development, 1997. Available in French.

13. Can Africa Take Lessons from the U.S. Approach to Tax Evasion? Gray, Clive. *Enhancing Transparency in Tax Administration: United States Practice in Estimating and Publicizing Tax Evasion.* Cambridge, MA: Harvard Institute for International Development, 1997. Available in French.

14. Estimating Tax Buoyancy, Elasticity and Stability. Haughton, Jonathan. *Estimating Tax Buoyancy, Elasticity, and Stability.* Cambridge, MA: Harvard Institute for International Development, 1997. Available in French.

15. Estimating Demand Curves for Goods Subject to Excise Taxes. Jonathan Haughton. *Estimating Demand Curves for Goods Subject to Excise Taxes.* Cambridge, MA: Harvard Institute for International Development, 1997. Available in French.

16. Fixed or Floating Exchange Rates? Amvouna, Anatolie Marie. *Determinants of Trade and Growth Performance in Africa: A Cross-Country Analysis of Fixed Versus Floating Exchange Rate Regimes.* Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

17. Trade and Development in Africa. Stryker, J. Dirck. *Trade and Development in Africa.* Cambridge, MA: Associates for International Resources and Development, 1997. Available in French.

18. Increasing Demand for Labor in South Africa. Stryker, J. Dirck, Fuad Cassim, Balakanapathy Rajaratnam, Haroon Bhorat, and Murray Leibbrandt. *Increasing Demand for Labor in South Africa.* Cambridge, MA: Associates for International Resources and Development, 1998.

19. Structural Adjustment: Implications for Trade. Barry, Abdoul W., B. Lynn Salinger, and Selina Pandolfi. *Sahelian West Africa: Impact of Structural Adjustment Programs on Agricultural Competitiveness and Regional Trade.* Cambridge, MA: Associates for International Resources and Development, 1998. Available in French.

20. The Uruguay Round: Impact on Africa. Hertel, Thomas W., William A. Masters, and Aziz Elbehri. *The Uruguay Round and Africa: A Global, General Equilibrium Analysis.* Cambridge, MA: Associates for International Resources and Development, 1998. Available in French.

21. Are Formal Trade Agreements the Right Strategy? Radelet, Steven. *Regional Integration and Cooperation in Sub-Saharan Africa: Are Formal Trade Agreements the Right Strategy?* Cambridge, MA: Harvard Institute for International Development, 1997.

22. Textiles in South Africa. Flaherty, Diane P., and B. Lynn Salinger. *Learning to Compete: Innovation and Gender in the South African Clothing Industry.* Cambridge, MA: Associates for International Resources and Development, 1998. Available in French.

23. Barriers to Business Expansion in a New Environment: *The Case of Senegal.* Beltchika-St. Juste, Ndaya, Mabousso Thiam, J. Dirck Stryker, with assistance from Pape Ibrahima Sow. *Barriers to Business Expansion in a New Environment: The Case of Senegal.* Cambridge, MA: Associates for International Resources and Development, 1999. Available in French.

24. Government and Bureaucracy. Goldsmith, Arthur. *Africa's Overgrown State Reconsidered: Bureaucracy and Economic Growth*. Cambridge, MA: Harvard Institute for International Development, 1998.

25. What Can We Do To Stop Smuggling in Tanzania? Phillips, Lucie Colvin, Rogers Sezinga, and Haji Semboja. Based on EAGER research in Tanzania on gold and gems marketing. Arlington, VA: International Business Initiatives, 1997.

26. Financial Programming in East and Southern Africa. Workshop held in Lilongwe, Malawi. June, 1999.

27. Restarting and Sustaining Growth and Development in Africa: A Framework for Action. Duesenberry, James S., Arthur A. Goldsmith, and Malcolm F. McPherson. *Restarting and Sustaining Growth and Development in Africa*. Cambridge, MA: Harvard Institute for International Development, 2000.

28. Restarting and Sustaining Growth and Development in Africa: Enhancing Productivity. Duesenberry, James S., Arthur A. Goldsmith, and Malcolm F. McPherson. *Restarting and Sustaining Growth and Development in Africa.* Cambridge, MA: Harvard Institute for International Development, 2000.

29. A Pragmatic Approach to Policy Change. Duesenberry, James S., and Malcolm F. McPherson. *Restarting and Sustaining Growth and Development in Africa: The Role of Macroeconomic Management.* Cambridge, MA: Harvard Institute for International Development, forthcoming in 2000.

30. Finance Capital and Real Resources. Duesenberry, James S., and Malcolm F. McPherson. *Restarting and Sustaining Growth and Development in Africa: The Role of Macroeconomic Management.* Cambridge, MA: Harvard Institute for International Development, forthcoming in 2000.

31. The Role of Central Bank Independence in Improved Macroeconomic Management. Duesenberry, James S., and Malcolm F. McPherson. *Restarting and Sustaining Growth and Development in Africa: The Role of Macroeconomic Management.* Cambridge, MA: Harvard Institute for International Development, forthcoming in 2000.

32. Governance and Macroeconomic Management. Duesenberry, James S., and Malcolm F. McPherson. *Restarting and Sustaining Growth and Development in Africa: The Role of Improved Macroeconomic Management.* Cambridge, MA: Harvard Institute for International Development, 2000.

33. The Benefits and Costs of Seignorage. McPherson, Malcolm F. *Seignorage in Highly Indebted Developing Countries.* Cambridge, MA: Harvard Institute for International Development, 2000.

35. Global Trade Analysis for Southern Africa. Masters, William A. Based on EAGER research in Southern Africa. West Lafayette, IN: Purdue University, 2000.

36. Modeling Long-Term Capacity Expansion Options for the Southern African Power Pool (SAPP). Sparrow, F. T., Brian H. Bowen, and Zuwei Yu. *Modeling Long-Term Capacity Expansion Options for the Southern African Power Pool (SAPP).* West Lafayette, IN: Purdue University, 1999.

38. Africa's Opportunities in the New Global Trading Scene. Salinger, B. Lynn, Anatolie Marie Amvouna, and Deirdre Murphy Savarese. *New Trade Opportunities for Africa.* Cambridge, MA: Associates for International Resources and Development, 1998. Available in French.

39. Implications for Africa of Initiatives by WTO, EU and US. Plunkett, Daniel. *Implications for Africa of Initiatives by WTO, EU and US.* Cambridge, MA: Associates for International Resources and Development, 1999.

40. Domestic Vanilla Marketing in Madagascar. Metzel, Jeffrey, Emilienne Raparson, Eric Thosun Mandrara. *The Case of Vanilla in Madagascar.* Cambridge, MA: Associates for International Resources and Development, 1999.

41. The Transformation of Microfinance in Kenya. Rosengard, Jay, Ashok S. Rai, Aleke Dondo, and Henry O. Oketch. *Microfinance Development in Kenya: Transforming K-Rep's Microenterprise Credit Program into a Commercial Bank.* Cambridge, MA: Harvard Institute for International Development, 1999.

42. Africans Trading with Africans: Cross-Border Trade – The Case of Ghana. Morris, Gayle A., and John Dadson. *Ghana: Cross Border Trade Issues.* Arlington, Virginia: International Business Initiatives, 2000.

43. Trade Liberalization and Growth in Kenya. Glenday, Graham, and T. C. I. Ryan. Based on EAGER Research. Cambridge, MA: Belfer Center for Science & International Affairs, 2000.

46. Labor Demand and Labor Productivity in Ghana. Gyan-Baffour, George, and Charles Betsey, in collaboration with Kwadwo Tutu and Kwabia Boateng. *Increasing Labor Demand and Labor Productivity in Ghana.* Cambridge, MA: Belfer Center for Science & International Affairs, 2000.

47. Foreign & Local Investment in East Africa. Phillips, Lucie C., Marios Obwona, Margaret McMillan, with Aloys B. Ayako. *Foreign and Local Investment In East Africa, Interactions and Policy Implications: Case Studies on Mauritius, Uganda and Kenya*. Arlington, Virginia: International Business Initiatives, 2000.

48. Does it pay to court foreign investment? Phillips, Lucie C., Marios Obwona, Margaret McMillan, with Aloys B. Ayako. *Foreign and Local Investment in East Africa: Interactions and Policy Implications*. Arlington, Virginia: International Business Initiatives, 2000.

49. Ethnicity & Investment Promotion: A Thorny Path for Policy Makers. Phillips, Lucie C., Marios Obwona, Margaret McMillan, with Aloys B. Ayako. *Foreign and Local Investment in East Africa: Interactions and Policy Implications*. Arlington, Virginia: International Business Initiatives, 2000.

50. Monetary and Exchange Rate Policy in Uganda. Musinguzi, Polycarp, with Marios Obwona, and J. Dirck Stryker. *Monetary and Exchange Rate Policy in Uganda*. Cambridge, MA: Associates for International Resources and Development, 2000.

African Economic Policy Discussion Papers

1. Kähkönen, S., and P. Meagher. July 1998. *Contract Enforcement and Economic Performance.* Available in French.

2. Bolnick, B., and J. Haughton. July 1998. *Tax Policy in Sub-Saharan Africa: Examining the Role of Excise Taxation.* Available in French.

3. Wadhawan, S. C., and C. Gray. July 1998. *Enhancing Transparency in Tax Administration: A Survey.* Available in French.

4. Phillips, L. C. July 1998. *The Political Economy of Policy Making in Africa.*

5. Metzel, J., and L. C. Phillips. July 1998. *Bringing Down Barriers to Trade: The Experience of Trade Policy Reform.* Available in French.

6. Salinger, B. L., A. M. Amvouna, and D. M. Savarese. July 1998. *New Trade Opportunities for Africa.* Available in French.

7. Goldsmith, Arthur. July 1998. *Institutions and Economic Growth in Africa.* Available in French.

8. Flaherty, D. P., and B. L. Salinger. July 1998. *Learning to Compete: Innovation and Gender in the South African Clothing Industry.*

9. Wilhelms, S. K. S. July 1998. *Foreign Direct Investment and Its Determinants in Emerging Economies.* Available in French.

10. Nelson, E. R. August 1998. *Financial Intermediation for the Poor: Survey of the State of the Art.* Available in French.

11. Haughton, J. August 1998. *Estimating Tax Buoyancy, Elasticity, and Stability.*

12. Haughton, J. August 1998. *Estimating Demand Curves for Goods Subject to Excise Taxes.*

13. Haughton, J. August 1998. *Calculating the Revenue-Maximizing Excise Tax.*

14. Haughton, J. August 1998. *Measuring the Compliance Cost of Excise Taxation.*

15. Gray, C. August 1998. *United States Practice in Estimating and Publicizing Tax Evasion.*

16. Cockburn, J., E. Siggel, M. Coulibaly, and S. Vézina. August 1998. *Measuring Competitiveness and its Sources: The Case of Mali's Manufacturing Sector.* Available in French.

17. Barry, A. W., S. B. Diarra, and D. Diarra. April 1999. *Promotion of Regional Exports of Malian Rice.* Available in French.

18. Amvouna, A. M. July 1998. *Determinants of Trade and Growth Performance in Africa: A Cross-Country Analysis of Fixed verus Floating Exchange Rate Regimes.* Available in French.

19. Stryker, J. D. June 1999. *Dollarization and Its Implications in Ghana.* Available in French.

20. Radelet, S. July 1999. *Regional Integration and Cooperation in Sub-Saharan Africa: Are Formal Trade Agreements the Right Strategy?*

21. Plunkett, D. September 1999. *Implications for Africa of Initiatives by the WTO, EU and US.*

22. Morris, G. A. and J. Dadson. March 2000. *Ghana: Cross-Border Trade Issues.*

23. Musinguzi, P., with M. Obwona and J. D. Stryker. April 2000. *Monetary and Exchange Rate Policy in Uganda.*

24. Siggel, E., and G. Ssemogerere. June 2000. *Uganda's Policy Reforms, Industry Competitiveness and Regional Integration: A comparison with Kenya.*

25. Siggel, E., G. Ikiara, and B. Nganda. June 2000. *Policy Reforms, Competitiveness and Prospects of Kenya's Manufacturing Industries: 1984-1997 and Comparisons with Uganda.*

26. McPherson, M. F. July 2000. *Strategic Issues in Infrastructure and Trade Policy.*

27. Sparrow, F. T., B. H. Bowen, and Z. Yu. July 1999. *Modeling Long-Term Capacity Expansion Options for the Southern African Power Pool (SAPP).* Available in French.

28. Goldsmith, A., M. F. McPherson, and J. Duesenberry. January 2000. *Restarting and Sustaining Growth and Development in Africa*.

29. Gray, C., and M. F. McPherson. January 2000. *The Leadership Factor in African Policy Reform and Growth.*

30. Masters, W. A., R. Davies, and T. W. Hertel. November 1998 revised June 1999. *Europe, South Africa, and Southern Africa: Regional Integration in a Global Context.* Available in French.

31. Beltchika-St. Juste, N., M. Thiam, J. D. Stryker, with assistance from P. I. Sow. 1999. *Barriers to Business Expansion in a New Environment: The Case of Senegal.* Available in French.

32. Salinger, B. L., D. P. Flaherty, and M. Keswell. September 1999. *Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa.*

33. Block, S. A. August 1999. *Does Africa Grow Differently?*

34. McPherson, M. F. and T. Rakovski. January 2000. *A Small Econometric Model of the Zambian Economy*.

37. Barry, A. W., Salinger, B. L., and S. Pandolfi. December 2000. *Sahelian West Africa: Impact of Structural Adjustment Programs on Agricultural Competitiveness and Regional Trade*.

40. Bräutigam, D. July 2000. *Interest Groups, Economic Policy, and Growth in Sub-Saharan Africa*.

43. Glenday, G., and D. Ndii. July 2000. *Export Platforms in Kenya*.

44. Glenday, G. July 2000. *Trade Liberalization and Customs Revenues: Does trade liberalization lead to lower customs revenues? The Case of Kenya*.

46. Goldsmith, A. June 2000. *Risk, Rule, and Reason in Africa*.

47. Goldsmith, A. June 2000. *Foreign Aid and Statehood in Africa*.

49. McPherson, M. F., and C. Gray. July 2000. *An 'Aid Exit' Strategy for African Countries: A Debate*.

51. Isimbabi, M. J. December 2000. *Globalization and the WTO Agreement on Financial Services in African Countries*.

53. McPherson, M. F., and C. B. Hill. June 2000. *Economic Growth and Development in Zambia: The Way Forward*.

56. McPherson, M. F., and T. Rakovski. July 2000. *Exchange Rates and Economic Growth in Kenya: An Econometric Analysis*.

57. McPherson, M. F. July 2000. *Exchange Rates and Economic Growth in Kenya*.

58. McPherson, M. F. July 2000. *Seignorage in Highly Indebted Developing Countries*.

67. Phillips, L. C., M. Obwona, M. McMillan, with A. B. Ayako. December 2000. *Foreign and Local Investment in East Africa: Interactions and Policy Implications*.

EAGER Research Reports

Cockburn, John, E. Siggel, M. Coulibaly, and S. Vézina. October 1998. *Measuring Competitiveness and its Sources: The Case of Mali's Manufacturing Sector*. Available in French.

McEwan, Tom et al. *A Report on Six Studies of Small, Medium and Micro Enterprise Developments in Kwazulu-Natal*.

McPherson, Malcolm F. *Sustaining Trade and Exchange Rate Reform in Africa: Lessons for Macroeconomic Management.*

Metzel, Jeffrey, A. Doumbia, L. Diakite, and N. A. Diarra. July 1998. *Prospects for Developing Malian Red Meat and Livestock Exports*. Available in French.

Phillips, Lucie C., M. Obwona, M. McMillan, with A. B. Ayako. December 2000. *Foreign and Local Investment In East Africa, Interactions and Policy Implications: Case Studies on Mauritius, Uganda and Kenya*.

Salinger, Lynn B., H. Bhorat, D. P. Flaherty, and M. Keswell. August 1999. *Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa.*

Sparrow, F. T., and B. H. Bowen. July 1999. *Modeling Electricity Trade in South Africa: User Manual for the Long-Term Model*.

Other Publications

McPherson, Malcolm F., and Arthur Goldsmith. Summer-Fall 1998. Africa: On the Move? *SAIS Review, A Journal of International Affairs*, The Paul H. Nitze School of Advanced International Studies, The John Hopkins University, Volume XVIII, Number Two, p. 153.

EAGER All Africa Conference Proceedings. October 18-20, 1999.

EAGER Regional Workshop Proceedings on the Implementation of Financial Programming. Lilongwe, Malawi. June 10-11, 1999.

EAGER Workshop Proceedings Senegal. November 4-6, 1998.

EAGER Workshop Proceedings South Africa. February 4-6, 1998.

EAGER Workshop Proceedings Tanzania. August 13-16, 1997.

EAGER Workshop Proceedings Ghana. February 5-8, 1997.

EAGER Workshop Proceedings. Howard University. July 17-19, 1996.

EAGER Workshop Proceedings Uganda. June 19-22, 1996.